# Kodak Highlights

Second Quarter 1983

In this issue:

- Midyear Sales and Earnings
- Chandler's Outlook
- Disc Camera in Stratosphere

## Contents

3 Interview with Colby Chandler
6 Kodamatic Trimprint Film Introduced
7 New Ektachem 700 Analyzer
9 Disc Cameras 25 Miles Up
11 Midyear Report to Shareowners
18 Management Changes
19 Two Elected to Board
Isomax Disks Announced

## On the Cover

A technician at the U.S. Apparatus Division in Rochester checks incubator units which keep patient blood samples at fixed temperature in a new Kodak Ektachem 700 analyzer.

Kodak, Ektachem, Ektaprint, Isomax, Kodacolor, Kodamatic, and Trimprint are trademarks.

**Kodak Highlights** is published quarterly for shareowners and others with an interest in the company. For information regarding shareowner matters, contact Shareowner Relations, Eastman Kodak Company, 343 State Street, Rochester, NY 14650. Telephone: 716-724-4352.
August, 1983/Vol. 36/No. 3
© Eastman Kodak Company

# Chandler Looks at Kodak's Present and Future

*In his first few months as Kodak chairman and chief executive officer, Colby Chandler offers the following views of the company, its future, and its competitive stance:*

**Q:** The economy seems to be in an expansionary phase, but we have yet to see a rebound in Kodak sales and earnings. Why not?

**Mr. Chandler:** An economic recovery is underway—at least in the United States. However, much of that recovery was found initially in autos and housing. Real disposable personal income—the true measure of the consumer's ability to spend—is only now begining to increase sharply, with the July 1 tax cut and lower rates of inflation. It will take time for this upturn to work its way into Kodak sales.

The unexpected and continuing rise in the value of the U.S. dollar, high costs associated with the development and promotion of new products, and market conditions that restrain the company's ability to increase prices are factors which will squeeze margins and profits during the second half of the year.

Internationally, the signs of economic recovery are much less evident. European business conditions are sluggish and the large Latin American countries are under great pressure.

With increasing costs and little growth in unit volume, Kodak earnings will be severely depressed for the balance of the year. We have characterized 1983 as a year in which Kodak business results will bottom out. That bottoming process is not yet complete.

**Q:** When will Kodak profits improve?

**Mr. Chandler:** Realistically, I would have to say it will take two more quarters before we begin to see Kodak turn around. Improvement will come, but not before 1984.

**Q:** What about profit margins—the returns on what the company makes and sells?

**Mr. Chandler:** Net earnings to sales peaked in 1973 at 16.2 percent of sales. That was an abnormally high ratio. This year, the ratio of earnings to sales will be abnormally low. During the past ten years, net earnings by Kodak have averaged 12.5 percent of sales. In 1982, the median rate of return on sales by *Fortune* 500 companies was 3.6 percent. In that year, Kodak's net margin was 10.7 percent. We look for margin recovery in 1984 and beyond, not to the 12–16 percent range . . . that's clearly out of reach . . . but we expect to regain our position relative to the earnings of others. Our operating plans give me confidence that we can manage the business in a way that will produce net margins of about 10 percent, which would be outstanding performance compared with others.

All international companies face the same challenge—to operate effectively in an environment characterized by slower rates of economic growth. This places a premium on enhancing market share, while lowering the cost of doing business.

**Q:** Recent news articles suggest that Kodak plans to become more aggressive in the face of increased competition from other suppli-

ers and from emerging technologies. Does this mean that Kodak will change in a fundamental way?

**Mr. Chandler:** Managing change is what operating a successful business is all about. Changes in the marketplace, in technology, in economic conditions—this changing environment forces us to change on a more or less continuous basis.

Competition is certainly not new to Kodak. In color photography, for example, we have been competing with Japanese suppliers for some 40 years. We have maintained our position in the marketplace and, in recent years, we have even increased our market leadership. Our new family of four Kodacolor VR films is a case in point. Demand for those products is so great that we are working overtime to meet it.

Technological change is a way of life with us. It has been the fundamental source of growth in our business since the company's earliest days.

So, I don't see a departure from the distinctive style in which we go about our business. But I do see a change in pace, in tempo, in the speed with which we need to make things happen.

We need to be more selective about identifying opportunities. We need to shorten the time from product concept to product sales. We need to become the low-cost producer in the markets we serve, while maintaining and enhancing traditional Kodak quality. We need to be the most effective supplier in the marketplace. We need to nourish that sense of urgency that drives all successful companies forward.

**Q:** Kodak has been described as an "awesome" company. How do you react to that?

**Mr. Chandler:** In many ways, we *are* an awesome company. I don't know of any company anywhere that could have introduced the disc system to a worldwide market the way we did last year. In the industrial sense, we can do just about anything—and do it well. But the real question is this: Can we afford to be all things to all people, to staff, equip, and sustain ourselves in a way that makes anything possible? I don't think so.

It staggers most Kodak observers when they learn that we make and sell some 30,000 products. Each of those products is at some stage of maturity and profitability. We must concentrate our resources on product lines which make important contributions to corporate rates of return. There must be an ongoing effort to review and take action on product areas where returns are marginal.

**Q:** Earlier this year came production of the 10-millionth disc camera. What are your expectations for the disc system this year and beyond?

**Mr. Chandler:** The disc system will be a Kodak front-runner for a long time to come.

We've often talked about some of the breakthroughs that made the disc system possible, breakthroughs in lens manufacture, power cell design, and the substantial improvements made in speed, grain and sharpness of the film. Overlooked is the fact that the disc of film is the first change in film configuration in almost one hundred years. The flat, circular shape permits some of the innovative features built into the cameras.

The number of disc cameras shipped from Rochester last year was about double the number of 110 cameras made and shipped in 1972, the year in which the pocket system was introduced. That says something about the effectiveness of the launch. This year, retail sales of disc cameras will be higher. Factory shipments, of course, will be lower.

because that comparison must be made against the initial stocking of inventory by dealers during our record-setting product launch.

Currently, some 20 manufacturers have 48 disc camera models available for sale. That's a good indication of the industry's acceptance of disc. That also means we have active competition.

In total, disc camera and film shipments in the first two year of the program will exceed anything we experienced in prior programs.

**Q:** Competition seems to be very keen in the copier market. How is Kodak faring?

**Mr. Chandler:** Competition in the copier market is intense. But our entry into that market has been an unqualified success. That success illustrates Kodak's ability to compete in new market areas.

When we entered the copier market in 1976, we did so with a user-friendly copier that was quickly recognized as the standard of the industry for quality and reliability. We further enhanced those product attributes with a level of customer service that is also viewed as the industry standard. Today, copier products are the fastest growing segment of our business.

Over the past year, we have further advanced our position in the market with two new products: the Kodak Ektaprint 250 duplicator and the Kodak Ektaprint 200 copier-duplicator. These products, like their predecessors, continue the long line of "firsts" for the industry. The Ektaprint 250 duplicator, for example, offers the first automatic, in-line, adhesive binding, the first single-pass, two-sided copying capability, and the first internal service diagnostic capability. The Ektaprint 200 copier-duplicator incorporates features previously available only in duplicating equipment.

**Q:** Every day, it seems, we read about exciting developments in the field of electronics. Does Kodak have the capability to keep pace with changes that are so rapid and so major?

**Mr. Chandler:** We usually read or hear of changes in technology long before they become a fact of life. But I don't want to dispel the notion that electronics is moving forward at a rapid pace. There is no question about that. And, there shouldn't be any question about Kodak's capabilities in this field—they're substantial.

For more than a year, we have been marketing the SP2000—an all-electronic, high-speed motion analysis system unique within industry. It uses a high-density videotape of our own design and a solid-state image sensor that is "state of the art."

In scan printing technology, our use of electronics to manipulate and improve upon the quality of film images is unmatched anywhere. We have already demonstrated (at Photokina in 1982) a developmental video display unit that lets you see conventional film images on a TV screen.

The evidence is there. Kodak is already in electronics based on a foundation that gets stronger every day.

**Q:** When will Kodak have an all-electronic still camera in the consumer marketplace?

**Mr. Chandler:** When the market is ready, we'll be there. Right now, it just doesn't make good business sense. The quality of current systems leaves much to be desired and today's prices are simply too high for the mass market.

I'm not suggesting that there wouldn't be any buyers for today's electronic cameras, but the current market is too small to be financially attractive for us.

Looking at it another way—many photographers would be dissatisfied with the results of such a system, and those who might accept the quality would be discouraged by the high price. So, there's much work left to be done.

**Q:** Some industry observers suggest that Kodak won't move into any technology unless there is a link with chemistry. Is that true?

**Mr. Chandler:** Not at all. We already have electronic products on the market and we'll continue to offer others wherever it makes good business sense.

We are in the process of forming an electronics division. In fact, we already make

and market some of the most sophisticated electronic products in the world. The Kodak Ektaprint copier-duplicator was the first in the industry to incorporate microprocessor controls. It took our competitors years to catch up with that capability. We rely on chemical technology where it provides unique advantages. We will do the same with electronics, where it can serve in combination with chemistry or where it can stand alone.

**Q:** Is the Kodak of tomorrow going to grow as rapidly as in the past?

**Mr. Chandler:** It will be difficult. Growth in major world economies will be more gradual in the future. That will affect our growth potential, just as it will affect the performance of all international companies. In Latin America, for example, annual growth in the 20-25 percent range is no longer a reasonable expectation. That is why it is so important for us to enhance our position in all the major markets we serve, while developing entirely new lines of business.

**Q:** How do you see the Kodak of the future?

**Mr. Chandler:** We will maintain the very profitable businesses we are in today and diversify wherever it is to our financial advantage. The Kodak of the future will be a mixture of technologies—chemical, optical, mechanical, and electronic.

I also see for the company an important role in biotechnology. There is enormous opportunity in this field, which explains the major grants that we have made for university research in the area. This will give us early insights on trends and opportunities that could lead to entirely new lines of business in what many refer to as "the new biology."

The Kodak of the future will continue to draw on the strengths and traditions of the past, but it will be an organization on the move—acting more quickly and more aggressively to serve our customers and to provide returns to our shareowners.

These are challenging times for Kodak and for many other companies. But we have tremendous resources in this company, a broad technological base, worldwide marketing strengths, and a skilled and dedicated workforce. It is more critical than ever before that we put those resources to their most effective use.

## Kodamatic Trimprint Film Introduced

Instant photos will be more convenient to handle than ever before with the announcement by Kodak of a new instant film that allows the finished color print to be separated from its chemical backing.

The separated prints, which company market research suggests will be "extraordinarily popular" with consumers, have the look and feel of traditional prints. They are easy to mail and to carry, and they are easy to cut for insertion in albums, frames, and wallets.

Designed for use in Kodamatic instant cameras, the new Kodamatic Trimprint instant color film will carry no increase in price over Kodak instant film currently in the marketplace. It will be available worldwide in September.

Kodak Vice President Frank P. Strong said market research showed that, for many people, the ability to separate prints from their backings would mean the difference between buying an instant camera now or postponing the purchase.

"We think the new film will spur sales of the new, low-priced Kodamatic 940 instant camera, as well as others in the line," said Strong, who is general manager, U.S. Marketing.

He cited as one of the principal drawbacks to instant photography today the fact that instant prints feel different from traditional

*Kodamatic Trimprint instant color film allows users to remove the thick backing, leaving a thin print similar to a conventional photo. At left, a quality control step at Kodak Park measures the ease of separating the print from the backing.*

prints and are awkward to handle. "That's because all of the material needed to record and develop instant prints has been required, until now, to stay with the instant print even though it is of no further use," said Strong. "With the new film, users have the option of removing the backing from their instant prints, making them very similar to traditional 3R prints."

Strong said the separated prints take up less than half the space—and weigh less than half as much—as unseparated ones. This advantage becomes readily apparent, he noted, when stacks of separated and unseparated prints are placed side by side.

When prints made by the new film emerge from a Kodamatic instant camera, they appear to be identical to today's instant prints. Across the bottom border, however, is a slit that allows the user to separate the print from its backing after the image appears. Kodak recommends waiting one hour before this is done.

Once removed, the backing can be discarded. The remaining Kodamatic Trimprint has a flat, black backing, rather than a white one as is found on traditional prints. These new instant prints can easily be cut, posted, tacked, or mounted in albums. The backs may be written upon with a soft lead pencil.

## Kodak Announces Ektachem 700 Analyzer

A Kodak Ektachem 700 analyzer, which automatically performs a wide range of enzymatic, potentiometric, and colorimetric clinical chemistry tests, has been introduced by Kodak.

According to John R. Zeman, vice president and general manager, Health Sciences Markets, the new analyzer is an "instrument designed to meet specific needs in clinical chemical laboratories. It incorporates sophisticated and dependable technology that opens the door to new high levels of productivity and efficiency."

During the conceptual, research, design, and developmental stages of the Ektchem 700 analyzer, Zeman said, market research was used to help pinpoint features, benefits, and support systems that clinical chemists and pathologists considered most important. Comments from users regarding the per-

*The new Kodak Ektachem 700 analyzer, designed for high-volume routine testing, may be programmed to perform only the tests patients need at the touch of a video screen.*

formance of the Ektachem 400 analyzer—first marketed in 1981—also were taken into account.

The research, he said, "confirmed that clinical chemists desire an automated analyzer that can perform a full range of routine assays, including enzyme-rate, potentiometric, and colorimetric tests. Other desirable features include small patient sample requirements, STAT interrupt capability, dependability, the ability to select an individual test or group of tests on demand, ease of operation, fast turnaround, minimum routine maintenance, accuracy, and stability."

"Clinical chemists and pathologists who had firsthand experience with Ektachem 400 analyzers were pleased with their day-to-day operation and performance," Zeman said. "Acceptance of dry, layered-coating technology incorporated in Ektachem clinical chemistry slides has been excellent."

The Ektachem 700 analyzer has all of the productivity and performance characteristics of the Ektachem 400 analyzer, plus expanded capabilities in enzyme analysis, computerized programming, "user-friendly" operation, and self-diagnosis required for high-volume routine testing.

One of the most important advantages offered by the Ektachem 700 analyzer, according to Zeman, is its ability to conduct only those tests required by the physician for each patient. "An operator need only point to the appropriate area on the analyzer's CRT display screen to select desired tests," he said. "The analyzer can provide up to 540 reportable patient test results per hour."

The flexible software capabilities of the Ektachem 700 analyzer enable laboratories to configure as many as 14 of their own custom-profile panels.

The analyzer also has a built-in auto-answer modem which connects to a private telephone line. The auto-answer modem is used for interactive diagnostics with Kodak's Customer Equipment Services Division in Rochester. It also can be used to transmit data to Kodak regarding usage of Ektachem slides, and it can receive technical news updates.

# Scientists Choose Kodak Disc Camera For Exploration of the Stratosphere

Scientists from seven different countries gathered in Texas twice within the past year to launch huge, helium balloons into the stratosphere. And a small Kodak product went along for the ride.

Each balloon—which would cover 18 acres if stretched over the ground—lifted a two-ton gondola as high as 25 miles above the earth. The gondolas were filled with instruments designed to gather data on the chemical make-up of the upper atmosphere, particularly the ozone layer.

Atmospheric pressure at that altitude approaches zero, and temperatures dip to –60 degrees Celsius.

When the scientists decided to mount cameras aboard the gondolas to provide visual data and to document the flight, they chose Kodak disc cameras.

And the reasons they chose the Kodak disc camera were much the same as the reasons which have led millions of consumers to make the same choice: ease of operation, durability, portability, and good results.

Robert Watson of the National Aeronautics and Space Administration (NASA) served as science coordinator for the project, which was called the Stratospheric Balloon Intercomparison Campaign.

"The project was jointly sponsored by governments and industry," said Watson. "Support came from the Chemical Manufacturers Association, the Commission of European Committees, and from the governments of Belgium, Canada, England, France, Italy, Japan, and the United States."

According to Watson, 17 different types of instruments were used to measure different chemical constituents. Several balloons were launched simultaneously.

"In this way, we could take between four and nine measurements of the same molecule in the same air mass at the same time," Watson explained. "By comparing the readings of different instruments, we could increase the reliability of our findings. This large amount of accumulated information now will help build a comprehensive data base for critically testing computer models of the atmosphere."

*A huge weather balloon is inflated in preparation for its flight into the stratosphere.*

Four balloons were launched from the NASA-supported site near Palestine, Texas, last fall and again this spring. At the first launch, after all the instruments were in place, one radio transmitter control line on the National Physical Laboratory (NPL) balloon was not in use.

James Radostitz, a University of Oregon research associate, and Nigel W. Swann of the National Physical Laboratory, Teddington, England, decided that line might be used for a camera—and a Canadian colleague, Wayne Evans, suggested the Kodak

disc camera. Radostitz and Swann went to the K-Mart store in Palestine and puchased two Kodak 4000 disc cameras off the shelf. They also used a 6000 model loaned to them by Evans.

"The Kodak disc camera was a perfect choice for this project," said Radostitz. "First, we needed a camera which could be activated electronically instead of mechanically. We were able to wire directly into the camera to do this.

*A Kodak disc camera is secured aboard a gondola for its flight into the upper atmosphere.*

"Next, since we had only one transmitter open, the capability of the Kodak disc camera to take the picture and to automatically advance the film with one signal was very important," he said. "And, because the camera has a fixed-focus lens, we didn't have to worry about speed settings or focusing."

Three Kodak disc cameras eventually were mounted in the NPL gondola—one pointed up at the balloon, one pointed at the ground, and one pointed over the horizon to the West. The first was to record the inflation of the helium balloon as it was rising to its float altitude, and the second was to monitor the cloud cover on the horizon at sunset. The third was to provide the scientists with a visual look at the cloud cover beneath the gondola—information which could be very useful when matched with the instrument readings. Because only one control was available, a single command triggered all three cameras.

Some insulation was provided for the cameras, although the area around the lenses was exposed. The sun's intense radiation in the upper atmosphere actually melted part of the body of the Kodak disc 6000 camera, the one facing West. And the scientists estimated that some pictures were taken when the temperature in the gondola was about –20 degrees Celsius.

The results?

"The pictures turned out very well," said Radostitz. "The resolution was very good. In fact, we were amazed at the resolution for cameras which cost this little."

Even the Kodacolor HR disc film recovered from the "melted" camera was processed, and good pictures were printed from it.

Before the spring launch, Kodak was informed about the project. The company provided cameras for several balloons and lent the assistance of a technical advisor, Ed Parks, of the United States Apparatus Division.

"The results were successful again," said Parks. "This time, more transmitter lines were available so that the cameras could be activated individually. The Kodak disc cameras provided the same advantages as the first time. And, we were pleased to learn that the scientists received good pictures in temperatures which were well below the normal range for operating the camera."

A mishap with a balloon sponsored by the Jet Propulsion Laboratory provided the ultimate test on the spring flight when the gondola fell without restraint some 108,000 feet to the ground. All the instruments, including the Kodak disc 4000 camera aboard, were demolished. But one lone Kodacolor disc film was recovered near the wreckage. And the pictures turned out fine.

# Midyear Report to Shareowners

Management's Discussion and Analysis of Financial Condition and Results of Operations

**Summary.** Net earnings for the second quarter were down 32 percent. For the half-year, net earnings were 49 percent lower than 1982 results reflecting the accrual in the first quarter of the cost of the Optional Retirement and Separation Program.

| (in millions, except earnings per share) | Second Quarter | | | First Half-Year | | |
|---|---|---|---|---|---|---|
| | **1983** | 1982 | Change | **1983** | 1982 | Change |
| Sales | **$2,396.0** | $2,430.5 | − 1% | **$4,525.9** | $4,678.1 | − 3% |
| Earnings from Operations | **286.6** | 389.3 | −26 | **363.8** | 681.6 | −47 |
| Net Earnings | **169.4** | 248.3 | −32 | **218.8** | 429.6 | −49 |
| Per Share | **$1.02** | $1.52 | | **$1.32** | $2.64 | |

**Sales.** Second quarter sales were 1 percent less than a year ago. Lower volume in the Photographic Division in the U.S. and the adverse impact of foreign currency rate changes against the U.S. dollar were the major reasons for this decline.

| **Sales by Division** (in millions) | Second Quarter | | | First Half-Year | | |
|---|---|---|---|---|---|---|
| | **1983** | 1982 | Change | **1983** | 1982 | Change |
| Photographic Division | | | | | | |
| Inside the U.S. | **$1,050.9** | $1,095.3 | − 4% | **$1,970.9** | $1,981.6 | − 1% |
| Outside the U.S. | **875.1** | 890.4 | − 2 | **1,639.6** | 1,781.5 | − 8 |
| Total Photographic Division | **1,926.0** | 1,985.7 | − 3 | **3,610.5** | 3,763.1 | − 4 |
| Chemicals Division | | | | | | |
| Inside the U.S. | **418.6** | 415.5 | + 1 | **817.9** | 832.1 | − 2 |
| Outside the U.S. | **102.8** | 99.7 | + 3 | **203.0** | 214.3 | − 5 |
| Total Chemicals Division | **521.4** | 515.2 | + 1 | **1,020.9** | 1,046.4 | − 2 |
| Deduct Interdivision Sales | **(51.4)** | (70.4) | | **(105.5)** | (131.4) | |
| Total Worldwide | **$2,396.0** | $2,430.5 | − 1% | **$4,525.9** | $4,678.1 | − 3% |

In the Photographic Division, second quarter sales declined in the U.S. as a result of lower volumes in all major market groups except copy products offset in part by higher selling prices. Outside the U.S., second quarter sales declined primarily because of the adverse impact of foreign currency fluctuations against the U.S. dollar which more than offset higher volume. Year-to-date sales declined because of lower volume both inside and outside the U.S. and the adverse impact of foreign exchange rate fluctuations.

In the Chemicals Division, second quarter volume increases in fibers and plastics more than offset generally lower selling prices.

Sales to the U.S. Government and defense contractors amounted to $166.3 million for the first half of the year, approximately 4 percent of total worldwide sales.

**Earnings.** The earnings declines in the second quarter and half-year reflect higher silver cost, the adverse impact of foreign exchange rate changes against the U.S. dollar and higher depreciation expense. The cost of the Optional Retirement and Separation Program, which was accrued in the first quarter, also impacted half-year results. Partially offsetting these negative factors was lower pension expense in the U.S.

| **Costs and Expenses** (in millions) | Second Quarter | | | First Half-Year | | |
|---|---|---|---|---|---|---|
| | **1983** | 1982 | Change | **1983** | 1982 | Change |
| Cost of goods sold | **$1,632.0** | $1,551.9 | + 5% | **$3,213.5** | $3,050.4 | + 5% |
| Percent of Sales | **68.1%** | 63.9% | | **71.0%** | 65.2% | |
| Sales, advertising, distribution and administrative expenses | **$ 477.4** | $ 489.3 | − 2% | **$ 948.6** | $ 946.1 | — |
| Percent of Sales | **19.9%** | 20.1% | | **21.0%** | 20.2% | |

Cost of goods sold included research and development expenditures of $169.6 million in the second quarter compared with $166.7 million last year. For the half-year, these expenditures amounted to $344.5 million, compared with $330.7 million in 1982.

| **Earnings from Operations** | Second Quarter | | | First Half-Year | | |
|---|---|---|---|---|---|---|
| | **1983** | 1982 | Change | **1983** | 1982 | Change |
| Amount (in millions) | **$286.6** | $389.3 | −26% | **$363.8** | $681.6 | −47% |
| Percent of Sales | **12.0%** | 16.0% | | **8.0%** | 14.6% | |

Investment income was lower for the half-year primarily because of lower yields. Interest expense for the quarter and half-year was higher than last year primarily because of interest on the $275 million 8¼ percent Convertible Debentures, issued in December, 1982. The net after-tax effect from foreign exchange transactions and the translation of monetary assets and liabilities was a gain of $4.2 million in the quarter compared with a gain of $1.6 million a year ago. For the half-year, the gain amounted to $13.7 million compared with a gain of $5.8 million in 1982. The provision for income taxes in the second quarter was $111.5 million compared with $147.5 million a year ago; and for the half-year the provision totaled $144.5 million compared with $265.5 million in 1982.

| **Net Earnings** | Second Quarter | | | First Half-Year | | |
|---|---|---|---|---|---|---|
| | **1983** | 1982 | Change | **1983** | 1982 | Change |
| Amount (in millions) | **$169.4** | $248.3 | −32% | **$218.8** | $429.6 | −49% |
| Percent of Sales | **7.1%** | 10.2% | | **4.8%** | 9.2% | |

**Cash Dividends.** During the second quarter of 1983, a cash dividend of 75 cents per share on the company's common stock was declared. Total dividends declared for the year-to-date amounted to $248.3 million compared with the $243.7 million declared during the same period a year ago.

**Financial Position.** Cash and marketable securities were $859.7 million at the end of the second quarter, compared with $1,017.9 million at year-end. Worldwide inventories were $2,018.2 million, down 4 percent from $2,101.5 million at year-end. Receivables were $1,923.0 million, compared with $1,828.9 million at year-end. Working capital at the end of the quarter decreased to $3,101.3 million from $3,142.9 million at year-end.

| Capital Additions (in millions) | Second Quarter | | First Half-Year | |
|---|---|---|---|---|
| | **1983** | 1982 | **1983** | 1982 |
| Photographic Division | **$185.3** | $237.5 | **$366.4** | $470.3 |
| Chemicals Division | **52.0** | 128.3 | **114.5** | 241.3 |
| Total | **$237.3** | $365.8 | **$480.9** | $711.6 |

The provision for depreciation for the first two quarters of 1983 was $293.9 million compared with $231.5 million for the first half of 1982.

**Outlook.** Many of the negative factors which faced Kodak earlier this year are still affecting the company, most notably lower unit volume, the adverse impact of foreign currency fluctuations against the U.S. dollar, higher depreciation and higher materials costs, especially silver.

We have characterized 1983 as a year in which Kodak results will bottom at a point from which recovery can begin. While there are signs of a business recovery in the U.S., particularly in good sales of color film and paper, we continue to operate in a sluggish international economy. The resulting restraints on unit volume, in a time of significantly higher costs, will keep earnings under severe pressure for the balance of this year.

Colby H. Chandler
Chairman

K. R. Whitmore
President

# Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

**Sales**

Sales to: Customers in the United States .....
Customers outside the United States .....

TOTAL SALES .....

**Costs**

Cost of goods sold .....
Sales, advertising, distribution, & administrative expenses .....

Total costs and expenses .....

**Earnings**

EARNINGS FROM OPERATIONS .....
Investment income .....
Interest expense .....
Other income and (charges) .....

EARNINGS BEFORE INCOME TAXES .....
Provision for United States, foreign, & other income taxes .....

NET EARNINGS .....

Average number of shares of common stock outstanding .....

Net earnings per share .....

Cash dividends per share .....

## Consolidated Statement of Retained Earnings

**Retained Earnings**

Retained earnings at beginning of quarter/year .....
Net earnings .....

TOTAL .....

Cash dividends declared .....

RETAINED EARNINGS at end of quarter .....

---

**Supplemental Information:**

Operations of subsidiary companies outside the U.S. included in Consolidated Statement of Earnings:

Sales .....
Earnings from operations .....
Net earnings .....

---

| Second Quarter (12 Weeks) Ended | | Half-Year (24 Weeks) Ended | |
|---|---|---|---|
| **June 12, 1983** | June 13, 1982 | **June 12, 1983** | June 13, 1982 |
| (in millions, except per share amounts) | | | |
| **$1,419.9** | $1,443.1 | **$2,688.2** | $2,686.9 |
| **976.1** | 987.4 | **1,837.7** | 1,991.2 |
| **2,396.0** | 2,430.5 | **4,525.9** | 4,678.1 |
| **1,632.0** | 1,551.9 | **3,213.5** | 3,050.4 |
| **477.4** | 489.3 | **948.6** | 946.1 |
| **2,109.4** | 2,041.2 | **4,162.1** | 3,996.5 |
| **286.6** | 389.3 | **363.8** | 681.6 |
| **25.4** | 28.6 | **53.1** | 59.9 |
| **28.5** | 18.9 | **50.4** | 36.1 |
| **(2.6)** | (3.2) | **(3.2)** | (10.3) |
| **280.9** | 395.8 | **363.3** | 695.1 |
| **111.5** | 147.5 | **144.5** | 265.5 |
| **$ 169.4** | $ 248.3 | **$ 218.8** | $ 429.6 |
| | | **165.6** | 162.5 |
| **$1.02** | $1.52 | **$1.32** | $2.64 |
| **$ .75** | $ .75 | **$1.50** | $1.50 |
| **$6,533.9** | $6,086.5 | **$6,608.7** | $6,027.0 |
| **169.4** | 248.3 | **218.8** | 429.6 |
| **6,703.3** | 6,334.8 | **6,827.5** | 6,456.6 |
| **124.1** | 121.9 | **248.3** | 243.7 |
| **$6,579.2** | $6,212.9 | **$6,579.2** | $6,212.9 |
| **$ 897.7** | $ 905.0 | **$1,689.8** | $1,815.9 |
| **19.5** | 71.4 | **50.8** | 119.4 |
| **−7.1** | 11.5 | **.4** | 28.9 |

# Consolidated Statement of Financial Condition

Eastman Kodak Company and Subsidiary Companies

| Assets | June 12, 1983 | Dec. 26, 1982 | June 13, 1982 |
|---|---|---|---|
| | | (in millions) | |
| **Current Assets** | | | |
| Cash | $ 87.4 | $ 89.7 | $ 74.9 |
| Marketable securities | 772.3 | 928.2 | 402.4 |
| Receivables | 1,923.0 | 1,828.9 | 1,959.8 |
| Inventories | 2,018.2 | 2,101.5 | 2,129.5 |
| Deferred income tax charges | 61.5 | 23.2 | 113.3 |
| Prepaid charges applicable to future operations | 254.4 | 317.8 | 169.6 |
| Total current assets | 5,116.8 | 5,289.3 | 4,849.5 |
| **Properties** | | | |
| Land, buildings, machinery, and equipment at cost | 9,758.3 | 9,344.1 | 8,640.8 |
| Less: Accumulated depreciation | 4,544.9 | 4,286.0 | 4,013.6 |
| Net properties | 5,213.4 | 5,058.1 | 4,627.2 |
| **Other Assets** | | | |
| Long-term receivables and other noncurrent assets | 282.4 | 275.1 | 224.7 |
| TOTAL ASSETS | $10,612.6 | $10,622.5 | $ 9,701.4 |
| **Liabilities and Shareowners' Equity** | | | |
| **Current Liabilities** | | | |
| Payables | $ 1,711.7 | $ 1,670.5 | $ 1,767.3 |
| Taxes-income and other | 179.2 | 260.7 | 264.2 |
| Dividends payable | 124.6 | 215.2 | 122.3 |
| Total current liabilities | 2,015.5 | 2,146.4 | 2,153.8 |
| **Other Liabilities and Deferred Credits** | | | |
| Debentures | 341.0 | 341.0 | 66.0 |
| Other long-term liabilities | 249.4 | 147.8 | 131.9 |
| Deferred income tax credits | 493.9 | 445.9 | 393.8 |
| Total liabilities and deferred credits | 3,099.8 | 3,081.1 | 2,745.5 |
| **Shareowners' Equity** | | | |
| Common stock* | | | |
| Par value-paid in or transferred from retained earnings | 414.3 | 414.3 | 406.7 |
| Additional capital paid in or transferred from retained earnings | 519.3 | 518.4 | 336.3 |
| Retained earnings | 6,579.2 | 6,608.7 | 6,212.9 |
| Total shareowners' equity | 7,512.8 | 7,541.4 | 6,955.9 |
| TOTAL LIABILITIES AND SHAREOWNERS' EQUITY | $10,612.6 | $10,622.5 | $ 9,701.4 |

*Common stock: $2.50 par value, 360.0 million shares authorized, 165.7 million shares issued (at June 13, 1982, 162.7 million shares issued). Of the shares authorized, approximately 3.4 million shares were reserved at the end of the quarter for the conversion of the debentures.

# Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

| | Half-Year (24 Weeks) Ended | |
|---|---|---|
| | **June 12, 1983** | June 13, 1982 |
| | (in millions) | |
| **Funds Provided By:** | | |
| Net earnings | **$ 218.8** | $ 429.6 |
| Depreciation and amortization | **294.4** | 233.5 |
| Other non-cash charges (credits) | **48.0** | 56.2 |
| Total from earnings | **561.2** | 719.3 |
| Increase (decrease) in liabilities | **(29.3)** | 24.0 |
| TOTAL FUNDS PROVIDED | **531.9** | 743.3 |
| **Funds Used For:** | | |
| Additions to properties | **480.9** | 711.6 |
| Dividends to shareowners | **248.3** | 243.7 |
| Increase (decrease) in: Receivables | **94.1** | 251.1 |
| Inventories | **(83.3)** | 159.2 |
| Other items, net | **(49.9)** | 22.2 |
| TOTAL FUNDS USED | **690.1** | 1,387.8 |
| Increase (decrease) in cash and marketable securities | **(158.2)** | (644.5) |
| Cash and marketable securities, beginning of year | **1,017.9** | 1,121.8 |
| Cash and marketable securities, end of half-year | **$ 859.7** | $ 477.3 |

The financial statements have been prepared by the company in accordance with the accounting policies stated in the 1982 Annual Report except that the provisions of Financial Accounting Standards Board Statement No. 52 regarding foreign currency translation were implemented as of the beginning of this year. This change had no significant impact on earnings. These financial statements should be read in conjunction with the Notes to Financial Statements appearing in the 1982 Annual Report. In the opinion of the company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included in the financial statements. The statements are based in part on approximations and have not been audited by independent accountants. The year-end statements will be audited by Price Waterhouse.

**Lowrie G. Piercy,** General Comptroller
August 1, 1983

*Murphy*

*Kleinhans*

*Matteson*

*Spoelhof*

## Management Changes

Two organizations for manufacture of equipment and materials within the Photographic Division have been formed by the company.

**Cornelius J. Murphy,** a group vice president, has been named general manager of Manufacturing-Materials. The group embraces the Kodak Park Division and Kodak Canada Inc., and has a coordinating responsibility for manufacturing materials in Mexico, Brazil, Australia, England, and France. It also will have responsibility for electronic media products.

**Richard C. Kleinhans,** formerly general manager of the Kodak Apparatus Division, has been appointed general manager of Manufacturing-Equipment. He also has been elected a group vice president. The new group includes Atex, Inc., and the U.S. Apparatus Division (formerly the Kodak Apparatus Division). Kleinhans also will have responsibility for coordinating equipment manufacturing in Canada, West Germany, and Brazil.

**Lawrence J. Matteson,** vice president and an assistant general manager of the former Kodak Apparatus Division (KAD), has been named as general manager of the U.S. Apparatus Division.

**Charles P. Spoelhof,** vice president and an assistant general manager of KAD, has been appointed assistant general manager of the U.S. Apparatus Division.

Murphy served as general manager of the International Photographic Division before being named general manager of the Photographic Manufacturing Group in 1982. He joined the company in 1954.

Kleinhans, who also joined the company in 1954, was appointed assistant general manager of KAD in 1977 and general manager of the division in 1982.

Matteson began his Kodak career in 1965. His most recent positions included those of Consumer Products Engineering, manager of Consumer Products, and assistant to the general manager of KAD.

*Smith*

Spoelhof started with Kodak in 1954. He served as director of Research and Engineering and later as manager of Business and Professional Products before his appointment as an assistant general manager of KAD in 1982.

In other changes, **Paul L. Smith** and **Henry C. Dixon** have been elected officers of the company. Smith was elected a vice president and was appointed assistant director of Finance and Administration, and Dixon was elected an assistant treasurer.

Smith had served as assistant to the director of Finance and Administration since July 1980. His previous positions included those of manager of Financial Planning and Analysis and director of Strategic Business Planning in Photographic Strategic Planning. He joined Kodak in 1958.

Dixon, who joined the company in 1950, had served as general credit manager since 1977. Prior to that, his positions included coordinator of International Finance in Finance and Administration.

## Two Elected to Board of Directors

*Samper*

*Saxon*

Two new members have been elected to Eastman Kodak Company's Board of Directors.

**J. Phillip Samper,** executive vice president and general manager of the Photographic Division, was elected to the Board in July.

**Dr. David S. Saxon,** chairman of the Corporation of the Massachusetts Institute of Technology, was elected at the August meeting.

Samper began his present duties on July 1, 1983. In 1982, he had been appointed general manager of the Photographic Marketing Group (now known as Marketing), and manager, International Photographic Operations.

Dr. Saxon assumed the MIT chairmanship on July 1, 1983, after serving eight years as president of the University of California statewide system. He presides over the MIT Corporation, which is the Institute's Board of Trustees.

## Spin Physics Announces Isomax Disks

Ultra-high-density magnetic recording media, called Isomax flexible disks, have been announced by Spin Physics, a Kodak company, to serve the needs for data storage in the fast-growing microcomputer market.

The new media could extend the storage capacity of 5¼" diskettes from one megabyte to as high as 10 megabytes. Major hardware manufacturers are presently using Isomax disks in the design of new, flexible disk-drive systems.

Increased storage capacities of Isomax disks are made possible by a new, isotropic, cobalt-enhanced magnetic particle. Isomax disks are the first commercially available media that support the new technology of vertical recording, making it possible for peripheral equipment to be designed to record more than 100,000 flux changes per inch.

This increased storage capacity, combined with modern processing technology, can result in considerably lower costs per byte of information.

The new recording media were developed by Kodak's Research Laboratories in Kodak Pathe (France) and in the United States. They are manufactured at Spin Physics in San Diego.

## Kodak Premium Items Offered to Shareowners

For many years, the Consumer/Professional & Finishing Markets division has made available to dealers premium items with Kodak identification. These are designed to assist in the merchandising of Kodak products. Several such items, including cooler bags, beach towels, and athletic bags, also have proven popular with Kodak employees.

In response to many inquiries from shareowners regarding these products, a small brochure has been published which lists some of the more popular items, their prices, and their availability.

If you would like to receive this brochure, send a note to Dept. 412-6-222, Eastman Kodak Company, 343 State St., Rochester, NY 14650. Ask for brochure A3-37.

**KODAK HIGHLIGHTS**
EASTMAN KODAK COMPANY
343 STATE STREET
ROCHESTER, N.Y. 14650

Bulk Rate
**U.S. Postage Paid**
Eastman Kodak Company

*The checkerboard pattern and the striped bar code (bottom) on the film magazine are part of a new series of electronically readable codes to be included on Kodacolor VR films. Other codes include machine-readable holes punched into the film and a bar code for each image (above) that will become visible when the film is processed. Eventually, all popular Kodak 35 mm films will feature similar "DX" codes. They are designed to allow camera manufacturers and photofinishers in the future to take advantage, electronically, of many possible opportunities offered by the codes.*

CC8-83A